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25X1

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SECRET

25X1



No. 0162/73
7 July 1973

Central Intelligence Bulletin

CONTENTS

INTERNATIONAL MONETARY DEVELOPMENTS: Dollar declines sharply again in Europe and, for first time in weeks, in Japan. (Page 1)

ITALY: Socialists rejoin center-left coalition. (Page 2)

EAST GERMANY - BERLIN: Pankow will restrict traffic into East Berlin during youth festival. (Page 3)

IRAQ: Heightened security precautions remain in effect following assassination. (Page 4)

SECRET

25X1

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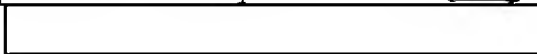
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SECRET

INTERNATIONAL MONETARY DEVELOPMENTS: The dollar again declined sharply against the European currencies yesterday and, for the first time in several weeks, against the yen. There was market concern that the European joint float could break up and that another currency realignment would be necessary.

Several major West German banks reportedly halted trading in dollars one hour ahead of schedule as a result of market uncertainties. The mark continues to strengthen and is now near the top of the band; the Danish crown is isolated at the bottom of the band and is being subjected to speculative pressure. Sterling has declined against the dollar over the last several days, partly in response to rumors that it would be repegged at a rate lower than the present level.

Swiss and Belgian officials have joined Paris in pressuring Washington to support the dollar. EC officials are now studying contingency plans to cope with the dollar depreciation. These plans reportedly focus on strengthened controls over dollar inflows. Capital controls, however, have continually proven inadequate to deal with massive speculation.



7 Jul 73

Central Intelligence Bulletin

1

SECRET

SECRET

ITALY: The Socialist Party's decision to participate in the four-party coalition has removed the biggest obstacle to a return to the center-left coalition abandoned 18 months ago.

Socialist approval followed the four-party agreement on a government program which deferred decisions on several troublesome issues. Economic matters which had plagued the previous government got the most attention. Promises were made to fight inflation, implement tax reform, and stimulate the building industry. A possible upward revision of pensions, after a review to begin in September, was also included. On the controversial question of editorial control over radio and TV, the four parties agreed to avoid a stand now by assigning the matter to a political committee for study. The equally sticky law and order issue centering on a proposed tough police detention law will also be dealt with later. On the key issue of the government's relations with the Italian Communist Party, the program introduced some flexibility by providing that proposals--even legislative amendments--coming from outside the coalition may be accepted if all elements of the coalition agree.

Prime minister-designate Rumor is now consulting among the four parties to determine who will be assigned to the various ministerial and undersecretarial posts, a task which probably will be completed within the next several days. [REDACTED]

25X1

25X1

7 Jul 73

Central Intelligence Bulletin

2

SECRET

SECRET

EAST GERMANY - BERLIN: The East Germans have warned Western officials that traffic into East Berlin will be severely restricted during the World Youth Festival from 28 July to 5 August. Travel will be limited to "hardship cases" to prevent disturbances by alleged subversive elements. If implemented, the restrictions would violate existing travel agreements, and popular reaction in West Berlin would be loud.

The East Germans are aware that previous Youth Festivals, particularly the one held in Bulgaria in 1968, have not been completely successful and have on occasion reflected badly on their Communist sponsors. The East Germans, however, are eager for an international spotlight to publicize the legitimacy of their regime. Although most delegations are from Communist-front organizations and are sympathetic to the goals of the festival, Pankow is taking no chances and has taken measures to restrict and regiment festival participants so that the anti-imperialist flavor of the festival will not be diluted. The plan to restrict visitors from the West is another aspect of East German determination to maintain thorough control of the festival.

West Berliners are already concerned over Pankow's recent demand that two allegedly criminal escapees to the West be returned, and the Senat will probably appeal to Bonn--and possibly to the Allies--to protest the travel restrictions.

25X1

SECRET

SECRET

IRAQ: Heightened security precautions remain in effect following the political assassination of the Minister of Defense last weekend. Saddam Husayn Tikriti, the deputy chairman of the powerful Revolutionary Command Council and leader of the civilian wing of the ruling socialist Baath Party, appears to have gained the most from the assassination and related events, and may actually have masterminded the conspiracy. Nazim Kazzar, the internal security chief who carried out the plot, was Tikriti's man. The Minister of Defense and the Minister of Interior, who was wounded and is now reported to be under house arrest, were both supporters of President Bakr in the Revolutionary Command Council. Bakr apparently is in virtual seclusion, having made only one public appearance since his return from Eastern Europe just as the plot was unfolding. Tikriti, therefore, appears to have taken one more important step in his continuing drive to gain full control of the government.

25X1

25X1
7 Jul 73

Central Intelligence Bulletin

4

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